

Report

City of Merritt
FINANCE and AUDIT
Meeting
April 15, 2020

File Number: 1970

To: Scott Hildebrand, Chief Administrative Officer
From: Sheila Thiessen, Director of Finance & IT
Date: April 14, 2020
Subject: Alternative Tax Collection Schemes

RECOMMENDATION:

THAT the Committee recommend to Council that the City utilize Section 235 of the *Community Charter* to set an alternative penalty structure for 2020; 10% to be applied September 4, 2020.

Background:

The *Community Charter* states that the annual Tax Rates Bylaw needs to be adopted after the Financial Plan and before May 15, 2020. Within the Tax Rates Bylaw, the collection scheme is specified. There are two statutes that the City normally follows when determining the method of collecting property taxes each year:

1. *Community Charter* Section 234, General Tax Collection Scheme, which states property taxes are due July 2 of the year, and
2. *Municipal Tax Regulation* 426/2003 that states that the penalty for unpaid taxes must equal 10% on the unpaid portion after the due date.

In response to the COVID – 19, the City is considering utilizing Section 235 of the *Community Charter*, which allows an alternative municipal tax collection scheme. This section states that a Council may, by bylaw (Tax Rates Bylaw) establish one or more dates on which all or part of the property taxes are due and establish penalties and interest to be made after a tax due date established in the bylaw.

This will allow the City to provide some relief to the taxpayers of Merritt.

Options / discussion

The options for the alternative tax collection scheme can be varied in many ways. Three potential options for the committee to consider are:

1. Maintain the status quo and follow *Community Charter* Section 234, July 2 due date and 10% penalty on all outstanding property taxes after that date.
2. Adopt an alternative municipal tax scheme that maintains the July 2, 2020 due date, with a 10% penalty applied after September 4, 2020.
3. Adopt an alternative municipal tax scheme that maintains the July 2, 2020 due date, with a 5% penalty after September 4, 2020 and 5% after December 2, 2020.

Financial / Risk Implications:

COVID – 19 has resulted in an unprecedented financial situation for municipalities. Where revenues have been stable and predictable, municipalities all over the country are now required to plan for cash flow shortages and determine how to provide support for their taxpayers and community members, while maintaining the essential services of the municipality.

Although the City is in a good position with surplus's and reserves, those will only be able to be used in the short term. The City still requires the annual tax levy to continue municipal operations.

A secondary consideration is that the City collects property taxes for other authorities, and at this time there is no indication that the other authorities will not expect their proceeds at the usual time, which is after the July 2, tax collection date. This will result in the City paying out funds that they may not have actually collected.

It is for this reason that Staff is recommending that the official tax deadline date of July 2, 2020 be maintained, to encourage all those taxpayers that can pay their property taxes by that date to do so. This will include those taxpayers still employed, taxpayers that defer their property taxes, homeowner grant applications, and those that have prepaid their taxes or mortgage companies that pay property taxes directly.

Delaying when the penalty is applied will encourage payment by those dates.

For taxpayers that are unable to pay their property taxes, there are some options for them, including:

1. Making partial payments or monthly payments
2. If over 55 and qualify – Property tax deferment program
3. Not paying their taxes, as the City will not attempt collections until their taxes go into delinquent taxes in three years.
 - a. The outstanding amount will generate a penalty in the current year and interest in subsequent years.

The risk that the municipality faces with the uncertainty of the collection of property taxes, is one of cash flow and the ability to fund ongoing operations of the City and capital projects. As all municipal governments are facing the same issues, the availability of debt funding for capital projects and ongoing costs may be limited. Therefore, cash flow is going to be critical for the City for the next several months or years.

As the length of the COVID – 19 situation is unknown, any decisions made need to take the long term impact into consideration.

Staff requires direction from Council on this issue so that the preprinted tax notices can be ordered. The tax notices will be mailed out by the end of May, under any of the options.

Others Consulted:

Staff has been participating in webinars and discussions with many other municipalities. Many of these discussions have included representatives from the Province, Municipal Finance Authority and other agencies.

Each municipality has a different situation, some will require short term borrowing to maintain operations, and others can make use of internal borrowing between funds to continue operations.

Attachments:

Community Charter Sections 234-236
Municipal Tax Regulation

Respectfully submitted,

**Sheila Thiessen
Director of Finance & IT**